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TAGS: [PREL](#) [PGOV](#) [EAID](#) [ETRD](#) [EINV](#) [CH](#) [SR](#)
SUBJECT: Serbia and China: Strengthening Relations, but Little
Substance

REF: BEIJING 2536

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Department of State, Economics Section; REASON: 1.4(B), (D), (E)

Summary

¶1. (C) Serbia is seeking closer ties to China as part of its recent emphasis on "four pillars" of foreign policy: the EU, U.S., Russia, and China. Other than China's support for Serbia on Kosovo, the relationship remains greatly imbalanced in China's favor. To highlight the importance of the relationship, Serbian President Boris Tadic visited Beijing in August, a trip which was hailed by the GoS as an historic milestone in Serbian foreign relations. In reality, however, the visit, and the September visit of Chinese Defense Minister Liang Guanglie to Belgrade, resulted in few concrete steps in the political, economic or military spheres. The "deeper" relationship may help Serbia maintain China's support on Kosovo, but may come at the cost of providing China preferred access to Serbia's market. While Serbia is not significant on its own as a market, it could provide China another foray into Europe for political and economic issues. End Summary.

China as a New Pillar in Serbia's Foreign Policy

¶2. (SBU) The Serbian government recently hailed the addition of China as a "new pillar" to Serbia's foreign policy strategy. President Tadic told the media on August 18 that Serbia and China's relations were at their all time best and said China would be the "fourth pillar" in Serbia's foreign policy, joining the EU, United States and Russia. Tadic told the FoNet media that Serbia's strategic partnership with China was built on several specific issues: Kosovo, economic cooperation, long-term friendship and Serbia's principled position on "one China." President Tadic's

August 19-24 trip to China was used to formalize this relationship with the signing of a Strategic Partnership agreement between the two States (reftel). Tadic was accompanied by Deputy Prime Minister Mladjan Dinkic, Foreign Minister Vuk Jeremic, and 10-15 Serbian businessmen.

Official Serbian Perspective: China Important, But Not Equal

13. (SBU) During his meeting with the Charge on August 25, MFA Political Director Borko Stefanovic expressed satisfaction with President Tadic's trip to China. Stefanovic said that the visit focused on three proposals for cooperation involving potential Chinese investment in Serbia: a bridge over the Danube, a river port on the Danube, and a future cargo terminal. Stefanovic said prior to the visit the MFA had worked to whittle the various "pork barrel" projects provided by each ministry to be raised with China down to a few reasonable requests. Stefanovic then went to great pains to play down the meaning of the "agreement on strategic partnership" signed during the visit and to stress that the "four pillars of Serbian foreign policy" were not equal -- the EU remained Serbia's top priority.

Unofficial Serbian Perspective: Beware of China

14. (SBU) Serbia should be cautious about its growing ties to China, Former Serbian Ambassador to the United States, Ivan Vujacic told the Charge on September 29. Vujacic said he was worried about the trade implications of opening up Serbian markets to China. He said this was the opposite direction of the European Union, which was trying to protect its markets from cheap Chinese products.

Chinese View of Visit

15. (SBU) China's Economic and Commercial Counselor in Belgrade Mr. Ren Yi, told us during an August 28 readout of Tadic's visit that China and Serbia signed the strategic partnership agreement in order to highlight each country's mutual respect, specifically regarding Taiwan and Kosovo. According to Ren, FM Jeremic stayed in China only for one day of the five day visit. Ren said he did not expect a reciprocal visit by China's President Hu Jintao to Serbia any time soon.

16. (C) Ren said the one solid economic deliverable from the trip was the agreement for China to provide a concessionary loan from the Chinese ExIm Bank to build a bridge over the Danube, connecting the towns of Zemun and Borca. The bridge would be built by Chinese firms (and equipment and materials), and the contract should be signed by early 2010, Ren said in a follow up conversation on September 30. Ren complained about the Serbian government's slow pace for moving the project forward, noting that a Chinese delegation was expected in Belgrade on October 10 to discuss the project, but that the GoS, specifically Deputy Prime Minister Dinkic's Ministry, was moving slowly. Ren thought this was because Serbia had never before contracted such a project to an outside (foreign) firm and was unfamiliar with the process. Other potential follow on projects were still only in exploratory phases, Ren said, mentioning China's interest in energy projects, the river port, and a Belgrade metro. Serbia had asked for more

concessionary loans, but China was unprepared to give loans at the favorable conditions which Serbia was seeking, Ren said.

¶7. (SBU) Ren said the economic climate in Serbia made it difficult to attract additional Chinese investment, citing the "lack of strategic planning" on the part of the Serbian government. Ren highlighted the large trade disparity between

China and Serbia (\$560 million in Chinese exports to Serbia vs \$5.5 million Serbian exports to China in 2008). Ren said he foresaw no real change in trade, stating that there was little Chinese demand for Serbian exports. According to Ren, China had six commercial/economics officers in Belgrade, despite the low level of Chinese business in Serbia.

Chinese Defense Minister Visits Belgrade

¶8. (C) Following Tadic's visit, Chinese Defense Minister General Liang Guanglie paid an official visit to Belgrade from September

7-10. During the visit Liang met with President Boris Tadic and Defense Minister Sutanovac. Sutanovac said this was the first visit of a Chinese Defense Minister in 25 years. According to press reports, the two defense ministers discussed bilateral ties, military cooperation and global military challenges, including terrorism and organized crime. An agreement signed between the two ministers will send a Serb student to study in China, and another Chinese student to study in Serbia. In essence, the mil-to-mil cooperation between China and Serbia will remain virtually non-existent.

Chinese Aid and Trade Linked

¶9. (C) An announced commercial deal between China and Serbia in the wake of the visits may provide an indication of how China intends to link its future aid and trade with Serbia. In late September, a Chinese company, Nucotech, was awarded a \$30 million contract to provide security scanners to Serbia, a deal in which a U.S. company Rapiscan was also interested. The loan for the deal was provided by the Chinese ExIm bank. Bloomberg and Xinhua news agencies reported that Nucotech is connected to the son of President Hu Jintao. In a September 23 conversation, a Serbian border official responsible for technology procurement told us he was unaware of the deal but questioned the reliability and quality of Chinese security scanners as well as their compatibility with Serbia's current border and customs technology.

China's Support for Serbia on Kosovo

¶10. (U) Serbian leaders seek China's continued support of Serbia on the Kosovo issue and are anxious to maintain that support within the UNSC. In his August 18 interview with Fonet, Tadic said China has "proved to be a strong ally and partner" on the Kosovo issue, noting that China had filed a brief in the International Court of Justice favor of Serbia's position.

Comment

¶11. (C) In a poorly thought out strategy, Serbia is spreading itself thin by creating multiple "pillars" as the cornerstone of its foreign policy. Although it claims that the EU remains its top priority, Serbia has shown its willingness to court Russia and now China in order to maintain their support for Serbia on Kosovo and to counterbalance nationalist rhetoric against Western influence in Serbia. While Serbia is most reliant upon Russia for support of its Kosovo policy, Serbia's courtship of China may be an attempt to diversify its benefactors, so Belgrade does not become too beholden to Russia for support. The courtship of China, however, may come at a cost, with Serbia offering market access and sweet deals to Chinese business firms, while providing potential footholds into Europe. Serbia would be wise to consider the impact that preferential Chinese trade and aid has had in other developing economies before accepting unbalanced terms from the economic giant of China. End Comment.

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